



# Korean insights & regulatory updates

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## Tax updates

### Revised tax laws in December 2022

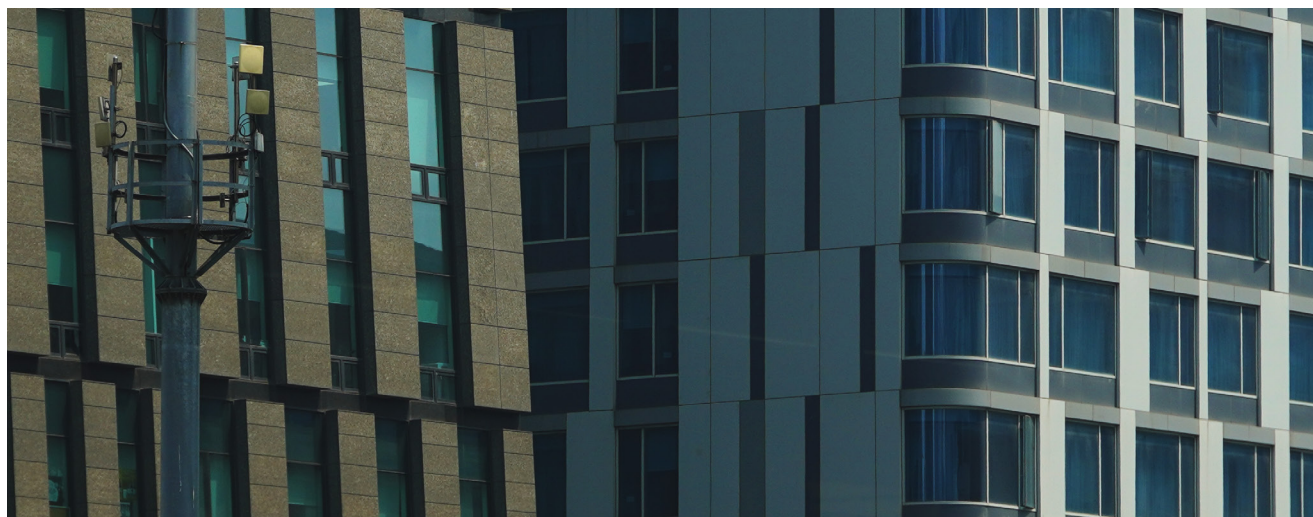
Revised tax laws have been approved by The National Assembly on December 23, 2022. Main differences with the original proposal that was submitted by the government in September 2022 are related to corporate income tax rates and the period during which the income tax “flat rate” can be applied. We have summarized below the main changes in tax laws passed by the National Assembly at the end of 2022.

#### Adjustments on corporate income tax rates

- The corporate tax rates are lowered as followed:

Tax base	Current*	Tax base	Revised
Below 200 million	10%	Below 200 million	9%
From 200 million to 20 billion	20%	From 200 million to 20 billion	19%
From 20 billion to 300 billion	22%	From 20 billion to 300 billion	21%
Above 300 billion	25%	Above 300 billion	24%

\* Excluding local income tax.



# Tax updates

## Revised tax laws in December 2022

### **Non-inclusion of dividends income from foreign subsidiaries**

Dividends received by a domestic company from its foreign subsidiaries shall be excluded from taxable income. And qualifying conditions are as follows:

- Dividends should be received from foreign subsidiary with ownership of at least 10% of shares held for at least 6 months as of the dividend date.
- Dividends should include profits, distributions from retained earnings or deemed dividends.

This amendment takes effect for dividends received on or after January 1, 2023.

### **Relaxation of requirements for foreign subsidiaries eligible for indirect foreign tax credits.**

The requirements for foreign subsidiaries to be eligible for an indirect foreign tax credit are relaxed from having to hold at least 25% of the shares for at least 6 months as of the dividend date to having to hold at least 10% of the shares for at least 6 months as of the dividend date.

This amendment takes effect for dividends received on or after January 1, 2023.

### **Raise of limit on the utilization of net operating loss carried forward**

The utilization limit allowed for the deduction of net operating loss carried forward shall increase from the current 60% of taxable income to 80% of taxable income.

- For SMEs, the utilization limit is unchanged at 100% of taxable income.

This amendment takes effect for business years starting on or after January 1, 2023.

### **Introduction of the global minimum tax rule**

The bill has introduced the adoption of the global minimum tax rule, which is aligned with Pillar Two of the Global Anti-Base Erosion Model Rules released by the OECD. The main content of the agenda is that, in the case of a global MNE group, if the effective tax rate is 15% or less in a certain jurisdiction, the shortfall may be taxed in other jurisdictions. Detailed of those rules will be released later.

This amendment takes effect for business years starting on or after January 1, 2024.

### **Expansion of exemptions from interim corporate income tax reporting obligations**

Domestic SMEs with an interim tax payment of under KRW 300 thousand were exempted from interim CIT reporting obligation. Threshold is increased to KRW 500 thousand.

This amendment takes effect for business years starting on or after January 1, 2023.

### **Establishment of obligation to submit the sum of tax invoices by the purchaser to foreign corporations' liaison offices**

In addition to the status data that the foreign corporation liaison office must submit, the sum of tax invoices by the purchaser must also be submitted.

This amendment takes effect from the supply of goods or services after January 1, 2023.

# Tax updates

## Revised tax laws in December 2022

### Expansion of exemption threshold for the submission of international transaction documents

In addition to the current exemption thresholds, the below criteria have been added to the exemption scope.

- Statement of international transactions are exempted in the following cases :
  - If the total amount of goods transactions is KRW 500 million or less;
  - If the total service transactions amount of KRW 100 million or less;
  - If the total intangible asset transactions amount to KRW 100 million or less.
- Summarized income statement of an overseas related party are exempted in the following case:
  - If intangible asset transactions of with overseas related parties are KRW 200 million or less.
- Report on arm's length pricing method:

If the total amount of intangible asset transactions is KRW1 billion or less or transactions of intangible assets with an overseas related party is KRW 200 million or less.

This amendment takes effect for business years starting on or after January 1, 2023.





# Tax updates

## Revised tax laws in December 2022

### Modification of the application period for flat tax rate for foreign workers (Applicable from January 1, 2023 employment income)

Flat tax rate	As-is	To-be
Special provisions on flat tax rate (19%) for Foreign Workers	Application for 5 years from the start date of work in Korea	Application for <b>20 years</b> from the start date of work in Korea

### Changes in income tax reduction for foreign engineers (Applicable from January 1, 2023)

Reduction period	As-is	To-be
Foreign engineers can choose between flat tax rate or income tax reduction by 50%	Income tax reduction for 5 years	Income tax reduction for <b>10 years</b>

### Income tax rate adjustment (Applicable from January 1, 2023)

As-is*		To-be*	
Below KRW 12 million	6%	<b>Below KRW 14 million</b>	6%
KRW 12 million ~ below KRW 46 million	15%	<b>KRW 14 million ~ below KRW 50 million</b>	15%
KRW 46 million ~ below KRW 88 million	24%	<b>KRW 50 million ~ below KRW 88 million</b>	24%
KRW 88 million ~ below KRW 150 million	35%	KRW 88 million ~ below KRW 150 million	35%
KRW 150 million ~ below KRW 300 million	38%	KRW 150 million ~ below KRW 300 million	38%
KRW 300 million ~ below KRW 500 million	40%	KRW 300 million ~ below KRW 500 million	40%
KRW 500 million ~ below KRW 1 billion	42%	KRW 500 million ~ below KRW 1 billion	42%
Above KRW 1 billion	45%	Above KRW 1 billion	45%

\* Excluding local income tax.

# Tax updates

## Revised tax laws in December 2022

### Shortening of the submission cycle for simplified statements (Applicable to the employment income from January 1, 2024)

Simplified statement submission	As-is	To-be
Earned income	Semi-annually	Monthly
Other income	Annually	Monthly

### Reduction of the burden of housing expenses (Applicable from 2022 year-end tax settlement)

Deduction	As-is	To-be
Tax credit for monthly rent	12%, 15%	15%, 17%
Deduction of repaid principal on housing lease loan	Up to KRW 3 million per year	Up to KRW 4 million won per year

### Increase of the limit of non-taxable meal allowance (Applicable from January 1, 2023)

As-is	To-be
Up to KRW 100 thousand per month	Up to KRW 200 thousand per month

### Increase of retirement pension account tax credit (Applicable from January 1, 2023)

As-is	To-be
KRW 7 million per year (Pension savings: up to KRW 4 million)	KRW 9 million per year (Pension savings: up to KRW 6 million)



# Tax updates

## HR & Labour updates

### Increase of Minimum Wage (Applicable from January 1, 2023)

As-is	To-be	Remarks
KRW 9,160 (hourly base)	KRW 9,620 (hourly base)	The monthly amount is KRW 2,010,580, calculated based on 40 hours of working hours per week, i.e., 209 hours per month (8 hours of paid holiday per week)

### Increase of some insurance contribution rates (Applicable from January 1, 2023)

Content	As-is	To-Be
Employment insurance contribution rate	6.99% of wage	7.09% of wage
Contribution rate for long-term care insurance	12.27% of contribution to national health insurance	12.81% of contribution to national health insurance

### Increase scope for foreign workers to the employment insurance (from January 1, 2023)

As-is	To-be
Compulsary for more than 10 employees	Less than 10 employees: - Unemployment insurance is voluntary - Employment security and vocational skills insurance is mandatory







## Accounting updates

# New measures for rationalizing accounting and audit requirements for SMEs

**The Financial Services Commission has recently reviewed the overall accounting and auditing system for SMEs. The FSC plan includes mainly (i) relief of regarding the application of accounting standards, and (ii) easing of regulations related to internal control system and external auditing.**

### **Relief on the application of some accounting standards**

#### **1. Reduction of the requirements for consolidation for unlisted SMEs**

In accordance with the revision of the Korean GAAP (“K-GAAP”) and the External Audit Act, companies subject to K-GAAP must prepare consolidated financial statements that include all subsidiaries and apply the equity method in individual financial statements from the 2022 fiscal year.

However, for unlisted SMEs with total assets of less than KRW 500 billion, only the subsidiaries reaching the thresholds under the External Audit Act would have to be consolidated.

#### **2. Communication for opinions between companies and auditors**

- Article 6, Paragraph 6 of the External Audit Act prohibits external auditors from preparing corporate financial statements on behalf of a company or providing any accounting advice.
- The Financial Services Commission plans to distribute a casebook on how auditors and companies can communicate without impairing the auditors’ independence.

#### **3. Disclosures on the Accounting for Redeemable Convertible Preference Shares (“RCPS”)**

- RCPS with a re-fixing condition linking the exercise price to the stock price after the IPO, is accounted for as capital under K-GAAP whereas it is classified as financial liability under IFRS.

- The FSC is now requiring some additional disclosures in the financial statements with regards to these financial instruments.
- This applies from the first fiscal year beginning on or after January 1, 2023, but early adoption is permitted.

#### **4. Operation of Accounting Support Center for SME companies**

- For SMEs helping FSC plans to install a “Small and Medium Business Accounting Support Center” within the KRX and operate it with the support of CPAs.
- For companies applying, FSC plans to perform tasks such as support for writing inquiries on accounting standards, consulting for preparing financial statements, and support for difficulties in external audit contracts.
- An online platform that integrates and provides practical examples such as accounting guidelines and Q&As will also be established and operated.

# Accounting updates

## New measures for rationalizing accounting and audit requirements for SMEs

### Deregulation of accounting and auditing

#### 1. Exemption from requirement of an audit of the internal accounting control system for small listed companies

- The implementation of the requirement for listed companies to have their internal accounting control system audited was planned to be extended to all listed companies by 2023.
- However, for small listed companies with less than KRW 100 billion in total assets, errors and irregularities can be detected through financial statement audits, and the burden due to increased audit fees is further increased.
- Accordingly, the Financial Services Commission will exempt small listed companies with total assets of less than KRW 100 billion from the requirement of having their internal control system audited and has maintained the existing review requirement (vs. audit requirement).

#### 2. Reducing the scope of large unlisted companies

- For large unlisted companies with total assets of KRW 100 billion or more, similar regulations as those for listed companies are applied for the purpose of protecting stakeholders.
- The definition of large size unlisted companies has been increased from KRW 100 billion to 500 billion. However, this category will still include corporations having to submit a business report and companies belonging to business groups subject to disclosure under the Fair Trade Act, if their total assets is above KRW 100 billion.

#### 3. Expansion of the scope of exemption for establishing an internal accounting control system

- Listed companies and unlisted companies with total assets of 100 billion won or more have to establish an internal accounting control system and are subject to a review or an audit by external auditors. However, limited companies and special purpose companies that meet the legal requirements are excluded.
- Along with the reduction in the scope of large unlisted companies, unlisted companies with total assets of less than KRW 500 billion will be

exempted from this requirement, unless they have to submit a business report or are subject for certain disclosures under the Fair Trade Act.

### New auditing standards for SMEs

- The current international auditing standards are designed for large listed companies, and are not suitable for small companies with a limited volume of transactions. Therefore, the International Auditing and Certification Standards Board (IAASB) is also promoting the establishment of relaxed audit standards targeting 'Less Complex Entities' as a target for implementation in 2024.
- The FSC and the KICPA plan to apply simplified auditing standards to small unlisted companies from 2023.

### Other measures

The Financial Services Commission has also prepared supplementary measures to minimize the side effects of the deregulation related to accounting and auditing.

#### 1. Enforcement of disclosure on internal accounting control system

- The Financial Services Commission plans to alleviate penalties related to listing maintenance and reflect the degree of improvement efforts in the supervision measures to induce self-improvement of internal accounting by companies. As a result, FSC plans to encourage the management and auditors to strengthen their accountability for the operation and monitoring of the internal accounting control system.

#### 2. Increase of internal incentives to report accounting irregularities

- A reward system for reporting fraudulent accounting has been in operation since 2006.
- The calculation method will be amended so that the amount of reward per case will be tripled, and the standard amount of reward per case will be doubled from the current KRW 500 million to KRW 1 billion.





# Accounting updates

## New measures for rationalizing accounting and audit requirements for SMEs

### Timeline

The Financial Services Commission promotes matters that do not require statutory revision as quickly as possible and expects to complete its plan by the second quarter of 2023. Some items have already been completed by the end of 2022.

#### 1. Relief of the burden of applying accounting standards

Task	To do	Regulators	Expected timeline
Reduced scope of consolidation for unlisted SMEs	Revision of K-GAAP	FSC, KASB	Done in Q4 2022
Communication of opinions between companies and auditors	Distributing a casebook	FSC	Initially planned in Q4 2022
Debt accounting for RCPS re-fixing condition after IPO	Revision of K-IFRS, KOSAQ listing rule	FSC, KASB, KRX	Done in Q4 2022
Operation of Accounting Support Center for SMEs	Establishment of the Center	FSC, KRX	Q4 2022

#### 2. Deregulation of accounting and auditing

Task	To do	Regulators	Expected timeline
Exemption from external audit of internal accounting control system for small listed companies	Revision of law	FSC	Done Q4 2022
Reducing the scope of large unlisted companies	Revision of enforcement ordinance	FSC	Done Q4 2022
Expansion of the scope of exemption for establishment of an internal accounting control system	Revision of enforcement ordinance	FSC	Done Q4 2022



# Accounting updates

## New measures for rationalizing accounting and audit requirements for SMEs

### 3. Reduce external audit burden

Task	To do	Regulators	Expected timeline
Establishment of auditing standards for SMEs	Establishment of audit standards	FSC, KICPA	Q1 2023
Support of auditing for SMEs	Preparing of Audit Manual	KICPA	Q1 2023

### 4. Complementary plan

Task	To do	Regulators	Expected timeline	
Substantial operation of the internal accounting management system	① Enforcement of disclosure	Revision of External Audit Rules and rules for operation	FSC, FSS	Q1 2023
	② Encourage management to improve internal accounting autonomously	Revision of KOSDAQ listing rule and rules for operation	KRX, FSS	Q1 2023
Increase internal incentive to report accounting irregularities	Revision of incentive rules	FSC	Q1 2023	

# Key figures

## Tax rates & social insurance rates

### Individual tax rates

Aggregate income taxation standard	Tax rate*
Below KRW 14 million	6.6%
KRW 14 million ~ below KRW 50 million	16.5%
KRW 50 million ~ below KRW 88 million	26.4%
KRW 88 million ~ below KRW 150 million	38.5%
KRW 150 million ~ below KRW 300 million	41.8%
KRW 300 million ~ below KRW 500 million	44%
KRW 500 million and below KRW 1 billion	46.2 %
Above KRW 1 billion	49.5%

\* Including local income tax.

### Corporate tax rates

Taxable income	Applicable rate*
Amount below KRW 200 million	9%
Amount exceeding KRW 200 million and below KRW 20 billion	19%
Amount exceeding KRW 20 billion and below KRW 300 billion	21%
Amount exceeding KRW 300 billion	24%

\* Excluding local income tax.

### Social insurance rates

Social insurance	Employer portion	Employee portion
Health insurance	Monthly average wage X 3.545% X 1.1281	Monthly average wage X 3.545% X 1.1281
National pension	Monthly average wage X 4.5%	Monthly average wage X 4.5%
Employment Insurance	Wage X (0.9% + premium by business size [0.25%~0.85%])	Wage X 0.9%
Industrial accident compensation insurance	Wage X premium by business type (0.7%~18.6%)	
<b>Total</b>	<b>About 10% of wage</b>	<b>About 9% of wage</b>

Premium rate introduced in this table may vary depending on the situation. Besides, upper limitation is set for some contributions.







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